Ritchie Bros. Auctioneers Inc. (RBA)

Updated May 11th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$7.4 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	05/25/2021
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	06/16/2021
Dividend Yield:	1.4%	**5 Year Price Target**	$109	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	10.0%

Overview & Current Events

Ritchie Bros. offers end-to-end solutions for buying and selling used heavy equipment, trucks, and other assets. The company's primary selling channels include Ritchie Bros. Auctioneers, the world's largest industrial auctioneer featuring online bidding, IronPlanet, an online marketplace with weekly auctions, and IronClad Assurance, which provides equipment condition certification. The company has a market cap of $7.4 billion, generates around $1.4 billion in annual revenues, and is based in Burnaby, Canada. Investors can trade its shares both on the TSX and NYSE. All figures in this report are in US dollars.

On May 10th, 2021, Ritchie Bros. reported its Q1-2021 results for the period ended March 31st, 2020. For the quarter, revenues increased by 21%, to $361.6 million, with inventory revenue increasing significantly, by 39%, mainly as a result of a change in GTV (Gross Transaction Value) mix and total service revenue growth. Specifically, service revenues increased by 13%. This includes fee revenues expanding by 14% (in line with total GTV growth) and commission revenue increasing by 11%. Rouse, which Richie acquired last quarter, also contributed to the improved results. As a result, net income and EPS grew to $28.1 million and $0.25, an increase of 23% and 19% (due to some extra share issuances), respectively. In March, Ritchie announced that it was awarded the support of the U.S. Department of Defense with new surplus term sale contracts as the company was declared the apparent high bidder for two new East and West contracts. Each of these contracts has a base term of two years with three one-year renewal options. In the absence of any guidance by management, we raise our FY2021 EPS estimates at $1.80 amid better than expected results and additional revenue from the DoD to further contribute to the bottom line.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.72	$0.75	$0.88	$0.85	$1.27	$0.86	$0.70	$1.12	$1.37	1.54	***$1.80***	***$3.32***
DPS	$0.44	$0.48	$0.51	$0.55	$0.62	$0.67	$0.68	$0.71	$0.78	0.84	***$0.92***	***$1.48***
Shares[1]	106	107	107	107	107	107	107	108	109	111	110	***121***

Despite Ritchie Bros. consistently growing revenues over the past decade, profitability had lagged, particularly in the 2016-2019 time period, as the company was reinvesting towards growth. We hike our EPS growth estimate from 8% to 13% over the medium term. The company is seeing strong demand for its auction services, while its acquisitions should inlock cost efficiencies, boosting net income. We were previously extra cautious due to the recently increased headcount, whose effect was thankfully milder than expected. We believe strongly in Ritchie's potential synergies amongst its services (for example, certification provision before auction listing and vertical integration). Hence EPS growth is likely to remain solid.

Due to profitability improving drastically, management has been accelerating its dividend growth recently. Dividend growth had fallen to as low as 3% in 2017, in line with stagnating EPS. In conjunction with this year's 10% dividend jump, we retain our dividend growth expectations at 10% in the medium term, comfortably supported by the company's

[1] Share count is in millions.

Ritchie Bros. Auctioneers Inc. (RBA)

Updated May 11th, 2021 by Nikolaos Sismanis

underlining net income. Ritchie Bros. has been growing its dividends annually without any exception since 2004, marking a 16-year dividend growth record. Note: The current DPS run rate implies $0.88, though dividend hikes occur mid-year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	31.7	26.3	26.4	27.9	30.6	25.0	25.8	43.7	31.2	42.5	***37.5***	***33.0***
Avg. Yld.	2.0%	2.2%	2.6%	2.2%	2.2%	2.2%	2.2%	2.0%	1.9%	1.9%	***1.4%***	***1.4%***

Ritchie Bros' valuation has been incredibly consistent over the years, hovering from 25x to 30x its net income. Since 2020 the stock's P/E has skyrocketed. It now hovers at around 37.5 as investors remain very optimistic in regards to the company's EPS growth. We continue to warn that a valuation compression is quite likely, despite the stock deserving its premium. We expect the stock's P/E to settle in the low 30's in the medium term, though we could be looking at a more optimistic multiple if EPS growth does not slow down. Shares have historically traded with a yield of around 2%, though it has now fallen near a 12-year low of just 1.4% due to the stock's valuation expansion. We expect RBA's yield to remain relatively thin in the future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

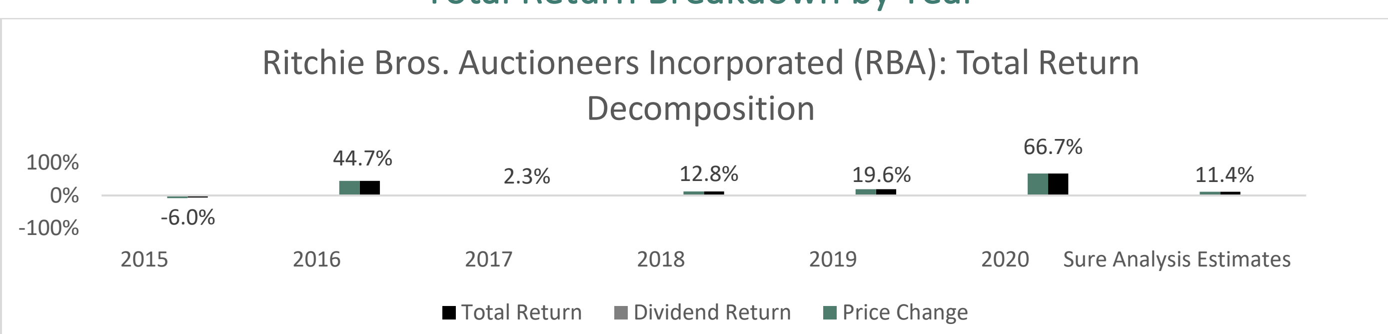
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	61%	64%	58%	65%	49%	78%	97%	63%	57%	55%	***51%***	***45%***

Ritchie Bros.' dividend coverage remains quite healthy. Despite the recent acceleration in dividend growth, the stock's payout ratio based on the company's expected FY2021 EPS is just over 50%. The company is the largest industrial-equipment auctioneer in the world, holding a significant competitive advantage due to its long-term expertise in the sector and the wide network effect of its online participants. Additionally, while its business model sounds sensitive to the industrial sector's cyclicality, the company is benefiting during such times as more equipment is brought forward to be auctioned (e.g., amid a company's liquidation), increasing its fees. During the Great Financial Crisis, for example, the company continued to enjoy revenue growth, despite the overall challenges in the economy. Hence, the company should remain resilient during a potential recession, enjoying robust cash flows.

Final Thoughts & Recommendation

Ritchie Bros. has been offering investors consistent, low volatility returns over the past couple of decades, featuring a well-managed dividend growth record. The company's solid top and bottom line during the pandemic, which adversely affected the overall industrial sector, is a testament to its resiliency. Powered by acquisition synergies, organic growth, and the DoD's contracts, profitability growth should remain solid. We believe that shares are offering investors annualized returns of around 11.4% in the medium term. We, therefore, rate shares a buy at its current levels.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Ritchie Bros. Auctioneers Inc. (RBA)

Updated May 11th, 2021 by Nikolaos Sismanis

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	396	438	467	481	516	1,127	971	1,170	1,319	1,377
Gross Profit	348	388	413	423	460	500	532	637	673	762
Gross Margin	87.9%	88.7%	88.4%	88.0%	89.1%	44.4%	54.7%	54.4%	51.0%	55.3%
SG&A Exp.	202	227	244	248	254	284	323	383	382	418
D&A Exp.	42	41	43	45	42	41	53	67	83	87
Operating Profit	108	119	126	130	163	176	156	187	220	269
Operating Margin	27.3%	27.2%	27.0%	27.1%	31.7%	15.6%	16.0%	16.0%	16.7%	19.5%
Net Profit	77	80	94	91	136	92	75	121	149	170
Net Margin	19.3%	18.2%	20.0%	18.9%	26.4%	8.1%	7.7%	10.4%	11.3%	12.3%
Free Cash Flow	64	72	95	110	166	141	108	101	292	215
Income Tax	31	32	40	36	38	37	2	31	42	66

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	967	1,132	1,162	1,122	1,120	1,600	2,017	2,052	2,229	2,352
Cash & Equivalents	109	178	234	140	210	208	268	238	360	279
Accounts Receivable	33	46	61	61	50	45	78	113	122	112
Inventories	49	61	52	43	58	28	38	113	65	86
Goodwill & Int. Ass.	46	110	121	128	138	170	932	917	906	1,142
Total Liabilities	349	476	468	430	413	908	1,273	1,217	1,322	1,339
Accounts Payable	22	34	31	47	38	39	78	93	73	76
Long-Term Debt	146	240	182	119	110	620	820	731	650	666
Shareholder’s Equity	618	657	694	692	703	687	740	831	902	1,007
D/E Ratio	0.24	0.37	0.26	0.17	0.16	0.90	1.11	0.88	0.72	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.3%	7.6%	8.2%	8.0%	12.2%	6.8%	4.1%	6.0%	7.0%	7.4%
Return on Equity	12.8%	12.5%	13.9%	13.1%	19.5%	13.2%	10.5%	15.5%	17.2%	17.8%
ROIC	10.3%	9.6%	10.6%	10.8%	16.7%	8.6%	5.2%	7.8%	9.5%	10.5%
Shares Out.	106.2	106.5	106.8	107.3	107.1	106.6	107	108.1	108.5	110.3
Revenue/Share	3.70	4.10	4.36	4.47	4.80	10.49	8.98	10.70	12.01	12.49
FCF/Share	0.60	0.67	0.89	1.02	1.54	1.31	1.00	0.93	2.66	1.95

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.